



USAID WORKSHOP:  
PROMOTING ECONOMIC GROWTH IN A NEW ERA  
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**Overview on Global Trends, Growth Determinants and Aid Effectiveness:  
Comments Steve Radelet's presentation by  
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I'm delighted to be asked to comment on Prof. Radelet's talk, as I very much admired his work with Jeff Sachs on the East Asian currency crisis. They were the first out of the blocks with solid information.

Today's format, of a speech followed by a comment, can only be the beginning of a dialogue on foreign aid and USAID. Perhaps the best I can do is to identify a couple themes suggested by Prof. Radelet's talk and his writings, and then, to facilitate dialogue that we will have to have in other times and places, I can try to contrast the themes with alternatives.

The two themes I have identified are (1) "aid as a financial flow," and (2) "Washington initiative in aid programming."

1. Aid viewed as a financial flow

I think many of Prof. Radelet's contributions are likely to be read, simplistically, in terms of foreign aid as a financial flow. The regression result says what?: cash in the right-hand side, growth out the left-hand side. Focuses on increasing aid budgets, and on the MCA and leaving recipient governments alone to manage MCA funds, seem to have the same message. It may be overlooked that in places Prof. Radelet notes that disaster relief is a special case within ODA and that remittances don't substitute for aid.

The aid-as-a-financial-flow theme is nonetheless a legitimate idea. It might be described as international fiscal federalism, something like the transfers within the European Union between higher- and lower-income member states. I don't think much foreign aid actually works like this at present, but the U.S. Government's cash grants to Egypt are an exception, and their impact on the Egyptian government's fiscal ability to subsidize consumption and reduce poverty has been considerable.

If the USG were considering the five-fold increase in its aid flows implied by the donor-effort target of 0.7 percent of GDP, we would probably have to consider widespread use of the fiscal federalism-type budget support on Egypt's model. Perhaps the Millennium Challenge idea is a small version of this, although at full funding the MCA takes the U.S. only about one-tenth the distance to 0.7 percent.

Relative to aid-as-a-financial-flow, what alternative would throw this theme into sharpest relief?

It might be one that Prof. Radelet himself mentions and that under U.S. law USAID has adopted: a results theme. Results differ from financial flows in the way an output differs from an input. They are also more complicated to measure. While a dollar of financial flows is always a dollar, foreign aid seeks a number of results that are qualitatively distinct from one another.

Take these five different types of results, which Prof. Radelet also touches on.

- (1) Disaster relief
- (2) Relief of chronic poverty
- (3) Technical cooperation on global or multinational interests
- (4) U.S. bilateral interests (which is something of a grab-bag)
- (5) Socioeconomic development

Even if each of foreign aid's diverse desired results could be quantified, our index of foreign-aid results would not be one-dimensional, unlike the index of financial flows. On top of all else, we usually pursue several of the five results at once in any given country, so we can't aggregate results at either the global or country level.

I note in passing that the technical assistance that characterizes so much of USAID's work is not very adequately measured by its financial cost.

Although I don't have time to get into the implications now, for both the qualitative and measurement reasons I have touched on, a focus on financial flows differs dramatically from a results focus in terms of programming and implementing foreign aid. This leads to the second theme I find in Prof. Radelet's work: Washington initiative in aid programming.

## 2. Washington initiative in Aid Programming

A number of Washington initiatives stand out in Prof. Radelet's proposals: (1) to re-write the Foreign Assistance Act, (2) to create a new foreign-aid Department to unify foreign-aid management, (3) to place countries in one of four categories with standardized program precepts for each category, and (4) to use the budget process to drive aid programming decisions.

The alternative to this theme suggests itself immediately: it would be an approach that is decentralized and recipient country-centered, which is familiar to most of us from USAID's model of resident country missions.

The essential difference between Washington initiative and the decentralized alternative would seem to be political ownership. As Prof. Radelet has stated in one place, the measures needed to support socioeconomic development require full ownership by the recipient country. Full ownership by the recipient may be hard to achieve with Washington initiative in assistance programming.

However, the Washington-initiative theme and the decentralized alternative are probably not mutually inconsistent. For example, programming for foreign-aid result no. 4 (U.S. bilateral interests) might depend on Washington's initiative, while programming for aid result no. 5 (socioeconomic development) might be recipient country-centered.

### 3. Where does USAID come out in all this?

USAID addresses all five types of desired foreign-aid results, by combining different techniques: (1) technical assistance that supports champions of progress to achieve results contributing to graduation from the need for foreign assistance, (2) assistance including NGO grants for relief targeted at both disasters and chronic poverty, and (3) on the occasions where fiscal transfers are made available, usually in the context of ESF programming, policy-conditioned financial assistance.

This basically covers Prof. Radelet's four "country approaches," including the Millennium Challenge type, noting that most countries need a combination of all four approaches. And indeed, Prof. Radelet is positive about USAID: although he recommends that USAID be "reinvigorated," I read that as saying that USAID has strengths that the USG should draw on more by hampering USAID less.

The issue in my mind is whether an emphasis on Washington initiatives to target increased financial flows is going to make the system work better or not, whether that system is just USAID, or USAID plus the MCC plus other USG agencies, or some system without USAID.

My experience is that large, Washington-influenced financial flows have not worked as well as other elements in the foreign-assistance arsenal from the point of view of socioeconomic development (result type no. 5). This is hardly surprising, because their motivation has generally been a U.S. bilateral interest (result type no. 4). The simplification in reporting required in Washington to justify large, visible flows is also a barrier to country-specific programming, which depends essentially on field conditions that are impossible to aggregate.

In sum, Washington initiative at this time to give foreign aid more coherence would likely bring about changes that would reduce the USG's ability to tailor assistance to support the champions of progress in our recipient countries.

Suppose, however, we ask, in principle and forgetting whatever our impressions are of political realities, what would be the reform most consistent with improving USG assistance for socioeconomic development? The answer might be to make USAID more independent, more technical, and less political. Concrete steps might include reducing the number of political appointees in USAID and maintaining its independent operational base in resident country missions.

Prof. Radelet's writings and Jeff Sachs's June 5, 2004 op-ed article in the New York Times may both be read to be broadly supportive of such a direction.

Would such an agency be capable of evaluating the targeting of large fiscal transfers as well as managing technical assistance? If the targeting is truly to be developmental, a technically focused and independent USAID might be the only way to handle fiscal transfers.

### Concluding Caveat

I conclude with the caveat that Prof. Radelet and I haven't had the opportunity to coordinate our remarks. The "themes" that I have attributed to him are based on the material I had available but haven't been checked with him. As a result, my interpretations are only my own and it's entirely possible that Prof. Radelet's views may turn out to be different. He may even have more sympathy with what I have characterized as the alternatives -- I don't know.

Wherever each of us in the audience today finds himself or herself with respect to these themes and alternatives, I hope that my laying them out may have helped our future dialogues along.